

Message Text

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: NEW SYSTEM FOR SELLING TREASURY BILLS

REF: ROME 4170

1. NEW SYSTEM FOR SALE OF ORDINARY TREASURY BILLS
REFERRED TO IN REFTEL WOULD REPLACE PRESENT METHOD
WHEREBY, WITH MINOR EXCEPTIONS, ONLY COMMERCIAL BANKS
PARTICIPATE IN AUCTION OF BILLS. AT PRESENT, IF FULL AMOUNT
OF BILLS OFFERED IS NOT SUBSCRIBED BY BANKS,
BANK OF ITALY STEPS IN AS RESIDUAL BUYER. SUBSEQUENTLY,
BOI SELLS BILLS AT REQUEST OF BANKS AT LOWEST PRICE
OFFERED AT LATEST AUCTION. SYSTEM HAS BEEN CRITICIZED
BECAUSE IT OFFERS BANKS INCENTIVE TO AWAIT OUTCOME OF AUCTION
AND THEN BUY DIRECTLY FROM BOI AT KNOWN FAVORABLE PRICE, RATHER
THAN HAVING TO MAKE CLOSED BID.

2. UNDER NEW SYSTEM, BANK OF ITALY WOULD ALSO DIRECTLY
PARTICIPATE IN AUCTION WITH CLOSED BID. ALTHOUGH BOI WOULD
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CONTINUE TO BE RESIDUAL BUYER, BANKS WOULD NOT BE ASSURED

OF BEING ABLE TO PURCHASE BILLS AT KNOWN PRICE AFTER AUCTION HAS BEEN HELD. THIS WOULD CREATE INCENTIVE FOR THEM TO FULLY PARTICIPATE WITH LOWEST BID AT TIME OF AUCTION IN ORDER TO ASSURE ACCESS TO SUFFICIENT AMOUNT OF BILLS TO MEET THEIR LIQUIDITY NEEDS. ITALIAN AUTHORITIES HOPE THAT NEW SYSTEM WILL BE MORE EFFECTIVE MEANS OF SETTING MARKET INTEREST RATES, WHILE ASSURING INCREASED FINANCING TO MEET TREASURY DEFICIT. AT SAME TIME, NEED FOR BANKS TO BID FOR FULL AMOUNT OF BILLS DESIRED MAY HAVE EFFECT OF RELATIVE REDUCTION IN INTER-BANK LOANS AS ALTERNATIVE FORM OF SHORT-TERM LIQUIDITY.

3. REFERENCE TO PARTICIPATION OF PUBLIC UNDER NEW SYSTEM FOR YELLING TREASURY BILLS IN REFTEL WAS SOMEWHAT MISLEADING. IN FACT, DECREE IS ISSUED ANNUALLY WHICH ESTABLISHES LEGAL PROCEDURES FOR SALE OF TREASURY BILLS. AT PRESENT, DECREE SPECIFIES THAT COMMERCIAL BANKS, BOI AND OTHER INSTITUTIONS WHICH ARE SO DESIGNATED MAY PURCHASE TREASURY BILLS. LATTER INSTITUTIONS ARE THEN SPECIFIED IN MONTHLY DECREE CONCERNING SALE OF THE INDIVIDUAL ISSUES. REFERENCE IN MARCH 21 COMMUNIQUE TO PARTICIPATION BY PUBLIC WAS IN FACT ALLUSION TO POSSIBILITY THAT CERTAIN ENTITIES SUCH AS LARGE INSURANCE INSTITUTES AND SOME LOCAL GOVERNMENT ENTITIES MIGHT BE ALLOWED TO PURCHASE TREASURY BILLS. GOI HAS MADE AN EFFORT IN THE PAST, WITHOUT GREAT SUCCESS, TO DISCOURAGE LOCAL GOVERNMENT ENTITIES FROM DRAWING UPON TREASURY IN EXCESS OF CURRENT FINANCING NEEDS. BY PERMITTING THESE ENTITIES TO REINVEST EXCESS LIQUIDITY IN TREASURY BILLS, TREASURY COULD AT LEAST PARTIALLY RECOUP THESE FUNDS FOR TEMPORARY PERIOD.

4. ALTHOUGH GENERAL PUBLIC COULD LEGALLY PURCHASE TREASURY BILLS THROUGH BANKING SYSTEM IN THE PAST, AND MAY STILL DO SO, SUCH PURCHASES HAVE BEEN QUITE UNIMPORTANT. VOLPE

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